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## Current Issue

July/August 2000

### COVER STORY: SUPPLY CHAIN MANAGEMENT QUARTERLY Efficient Foodservice Response Moving Towards Efficiency

*As bar coding begins to take hold in the foodservice industry, experts predict there will be more cost reduction opportunities in the supply chain including electronic commerce and strategic alliances between trading partners.*

By Kim Ann Zimmermann

The foodservice supply chain is poised to take a huge leap toward improving efficiency according to industry observers, particularly as the move to implement standard product identification numbers and bar codes on cases takes hold.

Efficient Foodservice Response (EFR), a joint project sponsored by 10 industry trade associations, is pushing for the voluntary adoption of Universal Product Code (UPC) standard product identification numbers on all cases by Dec. 31 of this year and Uniform Code Council (UCC) compliant bar codes by Dec. 31, 2001.

Experts believe that bar coding will enable the foodservice industry to take advantage of even greater cost reduction opportunities in the supply chain, including electronic commerce and strategic partnerships involving manufacturers, distributors and operators.

One of the key benefits is cost savings, which can be realized through reductions in transportation, handling and administration expenses. According to an EFR report, standard product IDs and bar coding will save operators, manufacturers and distributors an estimated \$847 million per year.

There are other advantages as well. Experts say the time it takes to track a product in event of a recall will be significantly reduced with standard bar coding on cases. In addition, there is the potential for a reduction in shipping errors because bar codes enable faster and more frequent checks as a case winds its way from the manufacturer to the distributor and ultimately to the retailer.

Also, there is no need to re-key information—it is scanned from the bar code—further reducing the opportunity for mistakes. As inventory information becomes more accurate, the need for safety stock will also be reduced, observers note.

### UCC Prefix Requests Surge

While there are immediate savings to be gained through bar coding and other improvements in the **supply chain**, long-term benefits of **supply chain** optimization, experts predict be more effective category management and sales forecasting as the technology allows easier collection and dissemination of data on product movement.

According to Mark Allen, executive director of EFR, Falls Church, VA, there has been a surge in requests for company prefixes, a process that is necessary to begin using standard product IDs, which will ultimately translate into scannable bar codes.

"We're seeing a huge jump in requests," he says. "In January of 1999, we were experiencing two to three requests per month. Last April, we saw a spike that put us in the range of requests per month, and it has remained in that range ever since."

The latest figures show that 750 foodservice manufacturers have requested UCC company prefixes since June 1999. Allen says the pace of requests for company prefixes has picked up significantly recently, with 80 applications received in March alone.

"We're pleased to see this progress, because it shows that manufacturers are committing to standard product identification and bar coding—and that our industry can move forward," says Paul R. Wexler, executive vice president of procurement and distribution at Advantica Restaurant Group Inc., Spartanburg, SC.

Advantica, which operates over 2,400 restaurants in the family dining segment, is the company and franchiser of the Denny's, Coco's, Carrows and El Pollo Loco restaurant brands.

While the potential for reducing costs in the **supply chain** is significant, the sharing of timely and consistent information are also benefits to be gained by streamlining the **supply chain** through the use of bar codes, EFR's Allen says.

"Manufacturers have gained a better understanding of the benefits of standard product identification and bar coding in such areas as managing inventory and ensuring food safety," he notes.

"Distributors and operators, in return, are beginning to request these capabilities from trading partners in an effort to make their operations more efficient," he says, particularly in the areas of product receiving and inventory management.

Working with manufacturers and distributors on improving **supply chain** inefficiencies has been vital to the success of these efforts, says Advantica's Wexler.

"We're about halfway there," Wexler says, noting that about 50 percent of cases are barcoded. "Until we've got 95 percent, we're not going to be getting all of the benefit possible. You can half-manage this thing. We're working hard to bridge the gap in understanding."

"Every time we call manufacturers to talk to them about bar coding on cases, they need to know specifics. They need size and location information. A lot of that is foreign to them," Wexler says.

Working closely with manufacturers and distributors is vital for any initiative to optimize the **supply chain**, Wexler adds, and is not limited to this push for product IDs and bar codes.

"Equitable alliances are a prerequisite to success on all levels," he says.

### Touching All Points

Reducing safety stock is a key issue for all operators, Wexler says. "The basic underlying compelling reason to implement EFR is a reduction of safety stock and better control inventory. The bar coding gives everyone the ability to view products" as they move through the supply chain."

While Wexler says there has been an industry-wide move to reduce the amount of safety stock throughout the supply chain, bar coding "will allow us to reduce the safety stock some facts to back it up."

Order accuracy is another key issue. "We look for improved percentages of orders filled. We look to improve the accuracy of orders from distributors," says Wexler.

For operators, bar coding can also ease the process of receiving inventory. According to a case study released by EFR, San Antonio-based Taco Cabana, a Tex-Mex fast food chain with 121 locations, improved its receiving operations through barcode implementation.

Purchase order matching takes place on the dock. Information is scanned as cases are received and uploaded to the operator's computer system, nearly eliminating the reconciliation of purchase orders to invoices.

Bar coding will also play a pivotal role in improving transportation and shipping operations at the manufacturer and distributor points in the supply chain, according to "Logistics Optimization: Profile Of An Industry," an EFR report released earlier this year.

The report, which describes the strategies of 14 companies that are successful logistics practitioners, says that savings can be realized through five key areas:

- coordinated transportation;
- crossdocking (the quick movement of shipment through the warehouse);
- shared warehousing and shared distribution;
- consolidated shipment of slow movers;
- direct shipment of fast-moving items.

"There are a whole host of benefits in distribution and logistics," says Jeff Clark, director of corporate development for Gordon Food Service, Grand Rapids, MI. Gordon Food Service is a distributor serving restaurants, schools and hospitals.

"Some of the benefits [of bar coding] kick in even when the company uses the technology unilaterally, such as improved inventory accuracy. When you enable the whole supply chain, that adds another layer to the mix," says Clark, increasing the potential for sharing information among all members of the supply chain.

For example, he notes that a manufacturer, distributor and restaurant could all have access to information on where a particular shipment is in the transportation cycle.

While information on product movement could be made available in the absence of bar coding, bar coding of cases has the potential to improve the accuracy of the information and eliminates the need to re-key information into a computer tracking system.

Lacking standard product identifications, many manufacturers, distributors and operators have developed their own internal databases using unique identifiers for products. Without a standard, many supply chain partners currently apply company-specific stickers to cases and cross reference their databases with those of their partners, creating the potential for errors and confusion.

Clark says he is seeing a higher level of bar code compliance among manufacturers than

had expected. He reported that compliance among manufacturers, in terms of percent product with bar codes, "is in the high 50s to low 60s."

#### **Increasing Recall Responsiveness**

Another tough issue facing the industry is the response to recalls, a process that is also hampered by the lack of standard product identification among trading partners. Expect the recall process will be quicker and smoother once standard bar coding and product ID are commonplace.

Currently, the process for implanting a product recall is extremely time consuming and faces tough obstacles, according to Charles Troyer, a partner in the consumer goods practice of CSC Consulting, El Segundo, CA. Troyer prepared "The Role of Bar Codes in Food Safety," an EFR report that was released this spring.

According to the report, in the current environment a supplier must search manufacturer records and tie them to inventory and shipping records when a product is recalled. The supplier's customers must be contacted, and those customers must search receiving, inventory and shipping records and then contact their own customers.

"Food safety and tracking and recalls are really messy practices. A common standard product ID is key in enabling tight control of product. The importance of using standard symbology is that it makes the message readable by a wide variety of scanning devices," Troyer says.

"With a single swipe of a scanner programmed with standards, anyone in the supply chain can quickly determine the exact product to pull from inventory."

A longer-term benefit of being able to quickly and easily share information throughout the supply chain will be the power to fine-tune the product mix based on data that a particular item sells well in a particular region of the country or even down to the individual retail location.

"The industry could do category management by location. Foodservice and restaurants would certainly see the benefits of this," EFR's Allen says. "They look to their brethren in the retail industry and say, 'Why can't we enjoy those benefits as well?'"

"The whole notion of understanding market size and fundamental demand at a granular level is almost not present in the foodservice industry," CSC's Troyer adds. "That capability is very much enabled by product ID and bar coding. The other half of the food industry, most notably, the supermarkets, have got agencies...that on a weekly basis can report market share information to tenths and hundredths of a point."

"They can look at sales and forecast demand product by product. They can slice and dice the data any way they want. Right now, in this industry, it is a big black hole. If you're a retailer, operator, or if you are a manufacturer or distributor, you don't have good information on how, when and where product sells," says Troyer. "You don't know where you are strong and where you are weak."

Troyer says bar coding is just the building block for the industry to make better use of broader electronic commerce initiatives to improve efficiencies. "The use of bar code and product ID is building the foundation," he says.

#### **What About the Pallets?**

Once the cases have arrived and the goods are put away, what happens to the shipping pallets? Pallet costs and logistics are perplexing issues that can hamper the efficiency of the supply chain.

"Assessing Pallet Costs in Foodservice," a new report developed for the Efficient Foodservice Response project by Prime Consulting Group Inc., Bannockburn, IL, examines the various costs and practices surrounding pallets.

The report summarizes the responses of 112 foodservice companies. When determining the most cost-efficient method for handling the return of pallets, about half of the manufacturer respondents ranked one-way pallets as the most expensive and third-party pallets as the most expensive.

About one in seven says pallet exchange was the most costly. The distributor respondents are divided on whether the use of pallet exchange or third-party pallets is more costly.

Pallet inventory control is the most challenging issue, according to the manufacturer respondents, while pallet quality is the biggest challenge reported by the distributors surveyed.

The EFR Pallet Subcommittee made some voluntary recommendations based on the survey, which included:

- Providing full and open disclosure between individual trading partners about and practices relevant to the cost of shipping platforms in foodservice distribution order to improve pallet pool quality for the industry.
- Adopting a voluntary self-regulation program, which could include adhering to pallet specifications for new, used and repaired platforms; enforcing system-level accountability; removing pallets in poor condition; using environmentally sound disposal for all discarded shipping platforms; and standardizing handling practices.
- Determining the most cost-effective platform for the total supply chain, and including the implications for motor carriers and other third-party logistics providers during discussions of overall supply chain improvements.

"When comparing costs between trading partners, it is important to consider the total system costs and the cost implications to the total system for any changes being contemplated by either or both partners. The total system costs include third-party service providers such as motor carriers and public warehouse operators," the report notes. --

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